HOUSING MARKET OUTLOOK

London

Canada Mortgage and Housing Corporation

www.cmhc.ca

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New Home Market

Apartment starts push home building to 16-year record

After 2004 saw a banner year for single-detached construction, the focus in 2005 is shifting back to more affordable townhouse and apartment units. Multiple unit construction will be boosted both by increased demand for affordable townhouse units and by a surge in rental market activity. The combination of buoyant multi-unit building and still-strong demand for single-family homes will lead to total housing starts of 3,114 units, a level not seen since 1989.

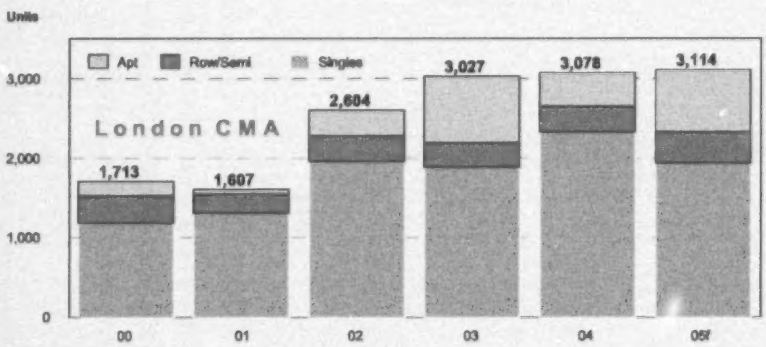
The average price of a new single-detached house in the London CMA surpassed $260,000 in the fourth quarter of 2004, up 10.2% over a year earlier. With prices forecast to gain a further 4.5 per cent this year and interest rates expected to edge higher, affordability will be a factor for many potential buyers. As a result single-family starts are forecast to fall back from a 15 year record in 2004 to a still-strong 1,945 units in 2005.

More affordable units on the way

Significant apartment construction in the downtown area will be largely responsible for the anticipated 58 per cent jump in multiple home starts activity in the London metro area. While the bulk of the 605 private sector units will be aimed at the upper end of the market, two projects under the Canada-Ontario Affordable Housing Agreement will contribute 115 homes at the other end of the spectrum.

In 2005, declining affordability will cut into demand for single family home ownership. There remains, however, a growing market for affluent move-up buyers who have benefitted from the rising price of their current homes. The market share of single-family homes priced above $300,000 increased from 14% in 2003 to 21% of sales in the first quarter of 2005.

Total starts climb



Source: CMHC Market Analysis, CMHC forecast (f)

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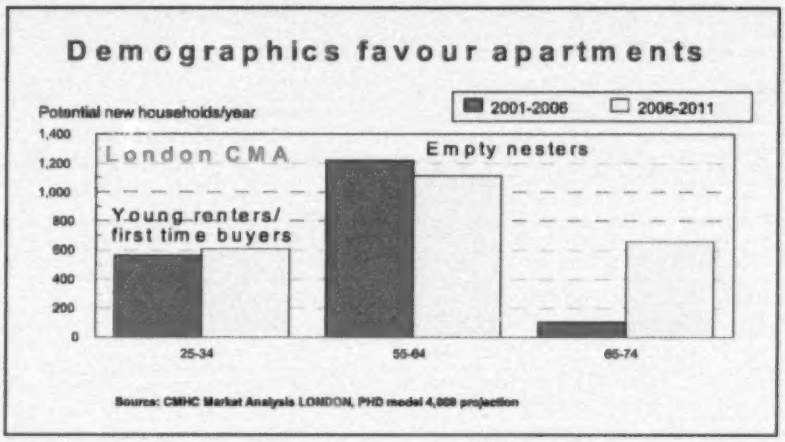
Factors supporting robust new home demand include stronger than anticipated employment expansion, positive net migration, strong consumer sentiment and low mortgage rates.

High detached home prices boosting demand for townhouses

With the price of an average new one-storey single expected to pass $250,000 this year, many potential new home buyers are turning to more affordable home types such as small two-storey singles and new lower-priced condominium townhouses. Demand for more luxurious townhouses also continues to be strong, especially among the growing number of empty nesters looking for a home with less upkeep. With a large number of projects already in the works, townhouse ownership starts are projected to pass the 300 unit mark for the first time since 1997.

The impact of empty nesters is evident in demand for apartment units. More than 1,000 new households in the 55-64 age group are being formed annually in the London area. Not only does this represent a significant demand pool for higher end rental accommodation, but will also further trigger demand for condominium units.

Younger households are also increasing in numbers. Although in the past this would have fed directly into an increased demand for smaller rental accommodation, the 2001 Census indicated that 36.1% of London metro's young adults aged 20-29 were still living with their parents. With this longer period at home, younger individuals are often able to save and move directly into homeownership, which helps to explain the prolonged first time buyer market of the last few years.



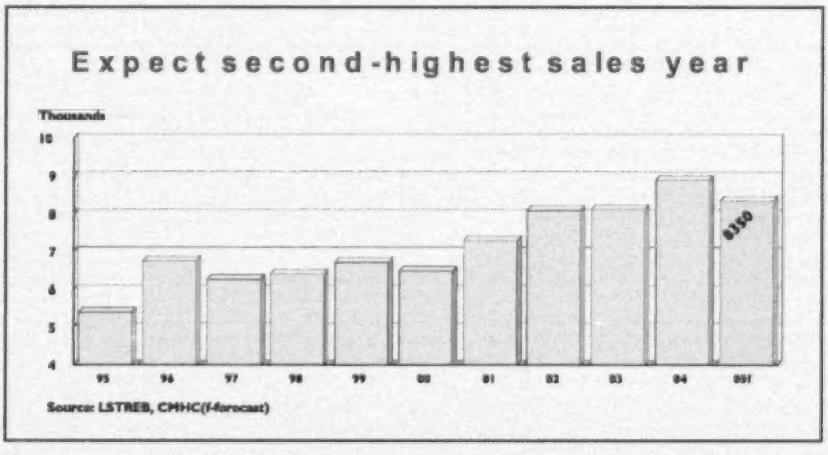
There are three London developments moving forward under the Canada-Ontario Affordable Housing Agreement. A 90-unit project on Burwell Street was started earlier this year. Also expected to start in 2005 are a 25-unit apartment project on Dundas Street and a 14-unit rental townhouse development in the Stoney Creek area of North East London.

Resale Market

Sales and Prices Solid

After four consecutive record setting years, 2005 will see a slight fallback in MLS* sales to 8,350 units. Despite the slowdown, continued low mortgage rates and strong consumer confidence will make this the second best year for sales of existing homes in London-St. Thomas area history.

With a more abundant supply of new listings and somewhat slower sales, the market will move closer to a balanced state. The result will be a moderation in the pace of price increases to 5.7%. While this price gain is below the 9.1% jump in prices seen in 2004, it is three times the expected rate of inflation.



***Multiple Listing Service(MLS) is a registered certification mark owned by The Canadian Real Estate Association.**

Economic Trends

Low Mortgage Costs Support Sales

Moderate price gains and still low interest rates will keep resale homes very affordable in 2005. The monthly payment for principle and interest on the predicted average price of $175,900 with a five per cent down payment would be just $1,097 monthly at the expected posted five year closed mortgage rate. To put this level of affordability in perspective, monthly payments over the last five years have increased on average by just 1.2% per annum, much less than the rate of inflation or the rate of increase in household incomes.

Mortgage Rates will Edge Higher

Mortgage rates are expected to remain low, rising by less than 50 basis points annually this year and next. One, three and five-year mortgage rates are forecast to be in the 4.50-5.50, 5.50-6.50, and 5.75-6.75 per cent range respectively in 2005.

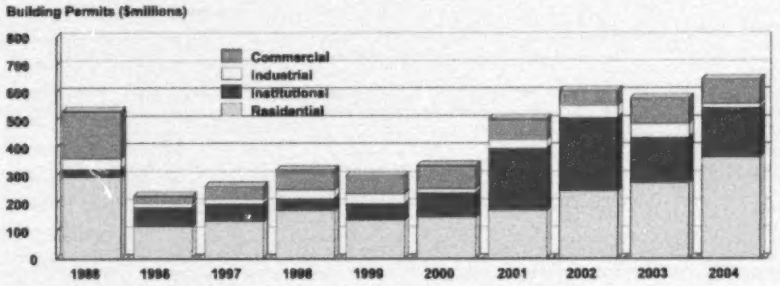
Construction strength building jobs

The London and area economy saw a jump in construction employment of almost 5,000 workers in the year from March 2004 to March 2005, as strength in residential, commercial and institutional building generated new jobs. 2004 saw a record $647 million in building permits issued by the City of London, of which $367 million were for residential construction. The construction industry was the largest source of new jobs and largely offset declines in the manufacturing and business, building and other support services industries.

For 2005, London area employment is forecast to grow by 1.8%. Although this is slower than the rapid 4.3% pace of job creation last year, it is in line with the anticipated 1.7% forecast for Ontario. Strong economic growth expected in the United States bodes well for export sales. Area manufacturers are coping well with the higher Canadian dollar. However, the region is expected to see a small increase in the unemployment rate as more workers enter the labour force.

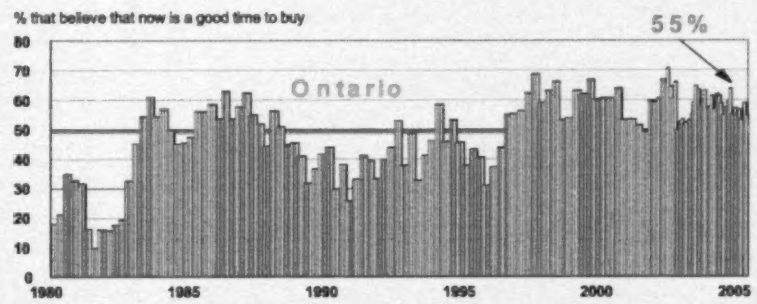
Buoyant consumer confidence is a positive factor for the London area housing market. Confident consumers are more inclined to enter or move up in the housing market. With 55% of Ontarians surveyed reporting they felt it was a good time to purchase a big-ticket item, the outlook is encouraging for such important durable goods industries as the automotive sector. This confidence both in Canada and the U.S. is one factor behind the decision to produce two more models at the Cami plant near Ingersoll.

Surge in building generating jobs



Source: City of London, CMHC

Consumers ready to buy large ticket items



Source: Conference Board of Canada, 1980 - Apr. 2005

FORECAST SUMMARY

London and area forecast completed May 2, 2005

					Percentage change (%)	
RESALE MARKET	**2002**	**2003**	**2004**	**2005(f)**	**2004**	**2005**
London & St.Thomas Real Estate Board						
MLS[1] Sales	8,097	8,120	8,903	8,350	9.6%	-6.2%
MLS Average Price	$142,106	$152,586	$166,465	$175,900	9.1%	5.7%
MLS New Listings	12,283	12,181	13,555	14,400	11.3%	6.2%
Sales-to-Listings Ratio	66%	67%	66%	58%		
NEW HOME MARKET						
London CMA (census metropolitan area)						
Starts						
1. Single-detached	1,969	1,893	2,336	1,945	23%	-17%
2. Multi-family	635	1,134	742	1,169	-35%	58%
3. Total Starts [1+2]	2,604	3,027	3,078	3,114	2%	1%
Multi-family by Type						
Semi-detached	22	22	26	30	18%	15%
Townhouse - Rental/Owner	9/286	39/236	75/228	49/306	10%	17%
Apartment - Rental/Owner	318/0	837/0	333/80	720/64	-51%	109%
Average Price* (Single-detached homes)						
Bungalow/Ranch	$198,643	$213,526	$240,922	$252,809	12.8%	4.9%
Two-storey	$225,887	$241,709	$253,113	$268,253	4.7%	6.0%
All single-detached units	$212,835	$231,237	$246,948	$260,521	7.0%	5.5%
* 2005 data for Jan.-Mar. period						
New Housing Price Index(1997=100)	109.8	115.0	120.4	125.8	4.7%	4.5%
RENTAL MARKET						
Apartment Vacancy Rate	2.0%	2.1%	3.7%	4.2%		
Average Rent (2 bedroom)	$705	$736	$758	$773	3.0%	2.0%
ECONOMIC OVERVIEW						
Mortgage Rate (1 year term)	5.17	4.84	4.59	5.01		
Mortgage Rate (5 year term)	7.02	6.39	6.23	6.28		
Employed (000's)	227.5	234.4	244.4	248.9	4.3%	1.8%
Employment Growth (000's)	-1.3	6.9	10.0	4.5		
Unemployment Rate (%) London /Ontario	7.1 /7.1	6.8 /7.0	5.9 /6.8	6.1/6.7		

f = CMHC forecast. Consensus mortgage rate forecast April, 2005.

Sources: Statistics Canada, London & St.Thomas Real Estate Board, CMHC

Housing Market Outlook is CMHC's outlook for new residential construction and sales of existing homes. The housing market outlook is released May 16 and October 24.

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